

Message Text

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USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

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LIMDIS GREENBACK

PASS TREASURY FOR WIDMAN: PASS FRB

E.O. 11652: GDS

TAGS: EFIN, IMF, IT

SUBJECT: G-10 DEPUTIES MEETING ON IMF ISSUES

REF: (A) EC BRUSSELS 3437

(B) BONN 6314

1. SUMMARY. BOI VICE DIRECTOR GENERAL OSSOLA CONFIRMED
TO TREASATT APRIL 23 THAT G-10 DEPUTIES AGENDA WOULD
CONTAIN FOUR ITEMS: (A) IMF QUOTAS; (B) GOLD; (C) EXCHANGE
RATE REGIME; AND (D) OTHER BUSINESS. OSSOLA WAS PESSIMISTIC
THAT DEPUTIES WOULD BE ABLE TO RESOLVE THESE ISSUES. HE
THOUGHT THAT ONLY MINISTERS COULD DO SO AND REGRETTED THAT
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TIME ALLOCATED FOR G-10 MINISTERS PRIOR TO JUNE 10-11 IMF

INTERIM COMMITTEE MEETING WOULD BE SO SHORT. TREASATT ALSO HAD TALK WITH TREASURY DIRECTOR GENERAL PALUMBO ON APRIL 22 ON THESE SUBJECTS. END SUMMARY.

2. IMF QUOTAS. PALUMBO REPEATED ARGUMENTS CONTAINED REFTELS ON DESIRABILITY OF REDUCING TO 15 PERCENT VOTE REQUIRED TO BLOCK IMPORTANT IMF DECISIONS. HE INSISTED THAT NATURAL EROSION IN US SHARE AS RESULT OF PROBABLE INCREASE IN FUND MEMBERSHIP WOULD EVENTUALLY REDUCE US QUOTA BELOW 20 PERCENT NOW REQUIRED TO VETO MAJOR DECISIONS. OSSOLA ALSO STRESSED DESIRABILITY OF LOWERING 20 PERCENT FIGURE TO 15 PERCENT. NEVERTHELESS, HE RECOGNIZED, AND SAID THAT HE HAD REMINDED EC PARTNERS, THAT US AGREEMENT TO QUOTA INCREASE HAD DEPENDED UPON ASSURANCE THAT US QUOTA WOULD NOT BE REDUCED BELOW 20 PERCENT.

3. GOLD. OSSOLA BELIEVED THAT FAIRLY LARGE CONSENSUS NOW EXISTED ON "ENABLING PROVISION" WHICH WOULD GRANT IMF EXECUTIVE DIRECTORS AUTHORITY EITHER TO RETURN GOLD TO ORIGINAL CONTRIBUTORS AT OFFICIAL PRICE OR TO SELL GOLD TO MEMBERS AT MARKET-RELATED PRICES (REF A). OSSOLA HOPED THAT THIS WOULD BE BASIS FOR COMPROMISE AGREEMENT BETWEEN OPPOSING POSITIONS TAKEN BY FRANCE AND ITALY, WHO FAVOR FORMER APPROACH, AND US, WHO FAVORS LATTER. HOWEVER, HE WAS STILL NOT CERTAIN THAT FRENCH WOULD BUY THIS COMPROMISE. PALUMBO, TOO, HOPED THAT COMPROMISE ON GOLD ISSUE COULD BE REACHED BY DEPUTIES.

4. FOREIGN EXCHANGE REGIME. OSSOLA ASSURED TREASATT THAT FOREIGN EXCHANGE QUESTION WOULD BE INCLUDED ON G-10 DEPUTIES AGENDA, PER US REQUEST. PALUMBO ALSO INDICATED THAT FRENCH, TOO, WISHED TO HAVE THIS ITEM ON AGENDA. OSSOLA SAID THAT, PERSONALLY, HE WAS AFRAID THAT THIS WOULD SIMPLY GENERATE THEOLOGICAL DISPUTE BETWEEN FRANCE AND US ON WHAT HE CONSIDERED TO BE RELATIVELY MARGINAL ISSUE OF LONG-TERM AGREEMENT ON EXCHANGE RATE REGIME. HE BELIEVED THAT BOTH US AND FRENCH POSITIONS IN IMF BOARD STRESSING FIXED RATES AND FLEXIBLE RATES, RESPECTIVELY, DID NOT ACCORD WITH VIEWS AGREED TO AT LAST INTERIM COMMITTEE MEETING. HE HOPED THAT IMF STAFF FORMULA WOULD PROVIDE BASIS FOR COMPROMISE AGREEMENT BUT RECOGNIZED THAT THERE WERE STILL WIDELY

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DIFFERING VIEWS ON THIS QUESTION. PALUMBO THOUGHT THAT IMF STAFF PROPOSAL WAS CLOSER TO US POSITION AND THAT IT SHOULD BE ACCEPTABLE EXCEPT, PERHAPS, TO FRANCE.

5. POSSIBLE OUTCOME OF DEPUTIES MEETING. OSSOLA EXPRESSED PESSIMISM ABOUT ABILITY OF G-10 DEPUTIES TO REACH AGREEMENT ON THESE THORNY ISSUES AT MAY 15 (P.M.) TO 16 MEETING. HE FELT THAT ISSUES COULD ONLY BE RESOLVED AT MINISTERIAL

LEVEL AND REGRETTED THAT PRESENT PLANS WOULD ONLY PERMIT
BRIEF TWO-HOUR MEETING OF MINISTERS ON MORNING OF JUNE 10
PRIOR TO BEGINNING OF IMF INTERIM COMMITTEE MEETING.
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